

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Market Dominant
Price Adjustment

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Docket No. R2017-1

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND
THE VALPAK FRANCHISE ASSOCIATION, INC.
MOTION FOR ISSUANCE OF INFORMATION REQUEST**
(October 20, 2016)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
(hereinafter "Valpak"), pursuant to Rule 3001.21(a), hereby move the Commission to issue an
Information Request seeking additional clarifying data and explanation from the Postal Service
concerning the Standard Mail Class.

1. The FY 2010 ACD remedial order required the Postal Service "present a **schedule**
of future above-CPI price increases for Standard Mail Flats ... **updated with each subsequent**
Market Dominant Price Adjustment and ACR until the revenue of the Flats product exceeds
its attributable cost." FY 2010 ACD at 107 (emphasis added). That remedial order also
required that:

"In subsequent **Notices of Market Dominant Price Adjustments**, the Postal
Service shall report the following information:

- an **explanation** of how the proposed prices will move the Flats cost coverage
toward 100 percent, and
- a **statement** estimating the effect that the proposed prices will have in
reducing the subsidy of the Flats product. [*Id.* See also FY 2012 ACD at 116
(emphasis added).]

These directives were acknowledged by the Postal Service in its Notice of Market-Dominant Price Adjustment (Oct. 12, 2016) at 26-27, yet the Postal Service did not comply with those requirements.

2. The Postal Service's entire response to the FY 2010 ACD directives states:

First, in a year when the average price increase for Standard Mail is 0.895 percent, the Postal Service is increasing the price of Standard Mail Flats by 2.493 percent. Assuming that the average cost per piece does not drastically change, the Postal Service believes that this year's above average price change for Flats will improve cost coverage by allowing revenue per piece to rise faster than cost per piece. Second, since the proposed price increase for Flats is larger than the proposed price increase for Standard Mail Letters (2.493 percent vs. 2.037 percent), the Postal Service believes that the cross-subsidy between these two products will be reduced. The above percentages are readily available from this notice and from fil "CAPCALC-STD-R2017-1" in library reference USPS-LR-R2017-1/2. [Notice at 26-27.]

As has occurred in the past, the Postal Service's response is wholly inadequate in helping the Commission to determine whether the noticed prices comply with the FY 2010 ACD's general directive to increase the cost coverage of Standard Mail Flats through a combination of price increases and cost decreases.

3. Concluding the UPS costing methodology docket, Order No. 3506, the Commission directed:

It is therefore appropriate to change the Postal Service's costing methodology to better reflect general principles of economic costing. Specifically, **the Commission now interprets attributable costs to mean the incremental costs** of a class or product.... Attributable costs shall now include those inframarginal costs calculated as part of a product's incremental costs, as well as volume-variable costs and product-specific costs. [Order No. 3506 (Sept. 9, 2016) at 60, 62 (emphasis added).]

The Postal Service's response in response to the remedial order in the FY 2010 ACD should now be based on the Commission's new interpretation of attributable costs.

4. Accordingly, Valpak requests that an information request be issued to the Postal Service to answer the following questions.

Proposed Questions

1. As required by the Commission directives in the 2010 Annual Compliance Determination (ACD), please provide an updated “schedule of future above-CPI price increases for Standard Mail Flats” based on the current pricing system (*i.e.*, the Commission makes no changes to the rate-setting system in its review pursuant to 39 U.S.C. § 3622(d)(3)).
2. Please provide a more detailed explanation of how the proposed prices will move the Flats cost coverage toward 100 percent.
3. Please provide a more detailed estimate of the effect that the proposed prices will have in reducing the subsidy to the Flats product.
4. Please provide an estimate of the effect on cost coverage for the prices noticed for Standard Mail Flats based on attributable costs as redefined to mean incremental costs as mandated by the Commission in Order No. 3506.
5. Other than the change in attributable cost methodology discussed above, please discuss any known factors expected to have a material impact on the attributable cost of Standard Mail Flats in FY 2016, *e.g.*, any change in FY2016 wage rates stipulated in union contracts.
6. Please provide an estimate of the effect on cost coverage for the prices noticed for Standard Mail Carrier Route based on attributable costs as redefined to mean incremental costs.

7. Please provide all underlying workpapers and data used to respond to these questions.

Respectfully submitted,

/s/

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